

Message Text

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PAGE 01 STATE 203517

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ORIGIN STR-08

INFO OCT-01 AGR-20 CEA-02 CIAE-00 COME-00 DODE-00 EB-11

FRB-02 H-03 INR-10 INT-08 L-03 LAB-06 NSAE-00 NSC-10

PA-03 RSC-01 AID-20 CIEP-02 SS-20 TAR-02 TRSE-00

USIA-15 PRS-01 SPC-03 OMB-01 ABF-01 EUR-25 ISO-00

AF-10 ARA-16 EA-11 NEA-10 /225 R

DRAFTED BY STATE:JSMITH:SMM

APPROVED BY STR:JAMCNAMARA

AGRICULTURE:KREYNOLDS

COMMERCE:FMONTGOMERY

INTERIOR:EGEALY

LABOR:BWHITE

STATE:DMORRISON

TREASURY:CLEIGH

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R 130051Z OCT 73

FM SECSTATE WASHDC

TO AMEMBASSY MADRID

USMISSION GENEVA

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C O N F I D E N T I A L STATE 203517

E.O. 11652:GDS

TAGS: ETRD, GATT, SP

SUBJECT: GATT BALANCE OF PAYMENTS COMMITTEE REPORT ON
SPAIN

REFS : MADRID 5737; MADRID 5744; GENEVA 5181 (NOTAL)

1. GATT ARTICLE XV:2 REQUIRES GATT CONTRACTING PARTIES TO
ACCEPT IMF FINDINGS AND DETERMINATIONS IN BALANCE OF PAY-

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PAGE 02 STATE 203517

MENTS SITUATIONS. ACCORDINGLY, USG SUPPORTS FINDINGS OF
IMF AND GATT BALANCE OF PAYMENTS (BOP) COMMITTEE THAT

SPANISH QUANTITATIVE IMPORT RESTRICTIONS ARE NO LONGER JUSTIFIED. FURTHERMORE:

(A) ANY USG ACQUIESCENCE IN SPANISH ATTACK MADE AT JULY 30 GATT COUNCIL MEETING ON TECHNICAL CALIBER AND REASONABLENESS OF IMF AND BOP COMMITTEE FINDINGS WOULD ADVERSELY AFFECT FUTURE BOP CONSULTATIONS WITH OTHER COUNTRIES AS WELL AS DETRACT FROM FUNCTION OF GATT AS MECHANISM FOR ORDERLY SETTLEMENT OF INTERNATIONAL TRADE PROBLEMS;

(B) IF SPANISH TRADE DEFICIT CONTINUES TO GROW, EVEN WITHOUT ANY CHANGE IN OVERALL BOP POSITION, GOS MAY BE TEMPTED TO ADMINISTER QUANTITATIVE RESTRICTIONS IN MORE

PROTECTIONIST FASHION THAN IN PAST;

(C) STRUCTURE OF SPANISH BOP (TRADE DEFICIT COUNTER-BALANCED BY WORKERS REMITTANCES AND TOURISM) IS NOT "FAULTY." IN SPAIN'S CASE REMITTANCES AND EARNINGS FROM TOURISM HAVE NOT BEEN "TRANSITORY" BUT, IF ANYTHING, MORE STABLE THAN TRADE BALANCE;

(D) SPAIN CANNOT LEGITIMATELY LOOK UPON QUANTITATIVE RESTRICTIONS INCONSISTENT WITH ITS GATT OBLIGATIONS AS PART OF ITS NEGOTIATING POSITION FOR MTN;

(E) LESSENING OF SPAIN'S BOP SURPLUS ON CURRENT ACCOUNT IN RECENT MONTHS DOES NOT JUSTIFY RETENTION OF QUANTITATIVE RESTRICTIONS. A COUNTRY WHICH IS IN OVERALL BOP SURPLUS -- AND SPANISH DEFICIT CANNOT BE PREDICTED IN FORESEEABLE FUTURE -- CANNOT JUSTIFY TRADE RESTRICTIONS UNDER GATT ARTICLE XII;

(F) WE SEE NO LEGITIMATE CONNECTION BETWEEN SPANISH COMPLIANCE WITH IMF RECOMMENDATIONS AND SPANISH NEGOTIATIONS WITH EC;

(G) ACCORDING TO IMF PUBLICATION, INTERNATIONAL FINANCIAL STATISTICS, WHICH CONSIDERS OVERALL BOP FIGURES AND
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PAGE 03 STATE 203517

NOT JUST CURRENT ACCOUNT, SPAIN'S RESERVES AS PERCENTAGE OF IMF QUOTAS ARE SIXTH HIGHEST AMONG ALL NATIONS. RESERVES HAVE INCREASED BY DOLS. 4.8 BILLION SINCE END OF 1970, RISE OF 367 PERCENT. SINCE MARCH 1973 ABSOLUTE INCREASE IN SPAIN'S RESERVES HAVE BEEN, WITH POSSIBLE EXCEPTION OF BRAZIL, LARGEST IN THE WORLD.

(H) USG POSITION ON SPANISH IMPORT RESTRICTIONS IS PART OF COMPREHENSIVE EFFORT BY ADMINISTRATION SINCE SMITHSONIAN AGREEMENT TO OBTAIN REMOVAL OF FOREIGN NON-

TARIFF BARRIERS WHICH HAVE DISTORTED TRADE PATTERNS AND RESTRICTED US EXPORTS.

2. US OBJECTIVE IN GATT COUNCIL MEETING IS TO SEEK SPANISH COMMITMENT TO SET TIMETABLE FOR LIBERALIZATION OF RESTRICTIONS. IN PREPARATION FOR COUNCIL, MISSION, DRAWING ON PARA 1, SHOULD CONTINUE DISCUSSIONS WITH UK, CANADA, SWITZERLAND, AND JAPAN, WHO ALSO SUPPORT IMF AND COMMITTEE FINDINGS. HOPEFULLY, IT WILL BE POSSIBLE FOR MISSION TO TAKE FIRM POSITION ON SUBSTANCE WITHOUT HAVING US "APPEAR AS SOURCE OF PRESSURE." US POSTURE IS NOT ONE OF "ATTACKING" SPAIN, BUT RATHER OF SUPPORTING FINDINGS OF IMF AND BOP COMMITTEE. ACCORDINGLY, MISSION SHOULD ATTEMPT NOT TO "PLAY LEADING ROLE," BUT SHOULD CONTINUE TO MAXIMUM EXTENT POSSIBLE TO ACT IN CONCERT WITH OTHER LIKE-

MINDED COUNTRIES.

3. IN DETERMINING MANNER AND TONE OF DISCUSSIONS MISSION SHOULD KEEP IN MIND FOLLOWING CONSIDERATIONS:

(A) US TRADE POSITION IN SPAIN IS GOOD AND IMPROVING;

(B) OVERALL EFFECT OF SPANISH QUANTITATIVE RESTRICTIONS ON US EXPORTS IS CURRENTLY MARGINAL;

(C) US DID URGE SPAIN NOT TO DEVALUE PESETA LAST FEBRUARY (ALTHOUGH SPAIN'S DECISION NOT TO DEVALUE WAS IN THEIR OWN SELF-INTEREST);

(D) SPAIN SHOWED UNDERSTANDING AND RESTRAINT WHEN RECONFIDENTIAL
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PAGE 04 STATE 203517

ENT US EXPORT CONTROLS IMPOSED;

(E) WE NOTE SPANISH POSITION IS INCONSISTENT WITH AGREED C-20 PRINCIPLE THAT COUNTRIES SHOULD AVOID PROTRACTED PAYMENTS SURPLUSES AS WELL AS DEFICITS.

4. IN REPLYING TO SPANISH ARGUMENTS (MADRID 5229 AND 5737), EMBASSY SHOULD DRAW ON POINTS IN PARA 1 ABOVE. IN ADDITION, EMBASSY SHOULD NOTE THAT POSSIBLE SPANISH TARIFF REDUCTIONS ARE NOT REPEAT NOT AT ISSUE. SPANISH TARIFFS, ALTHOUGH GENERALLY HIGH, ARE NOT IN VIOLATION OF GATT AND ARE A PROPER SUBJECT OF NEGOTIATION IN MULTILATERAL TRADE NEGOTIATIONS (MTN). SPANISH QUANTITATIVE RESTRICTIONS, HOWEVER, WERE JUSTIFIABLE IN PAST ONLY ON BASIS OF SPANISH BOP DIFFICULTIES. FOR SEVERAL YEARS SPAIN HAS EXPERIENCED NO SUCH DIFFICULTIES. THUS SPAIN SHOULD REMOVE THESE RESTRICTIONS AS A MATTER OF GATT OBLIGATION AS MANY OTHER COUNTRIES HAVE DONE AND IS NOT ENTITLED TO

SEEK A QUID PRO QUO FOR THEIR REMOVAL DURING MTN.

5. ANY ADDITIONAL INSTRUCTION FOR COUNCIL MEETING WILL
TAKE ACCOUNT OF DEVELOPMENTS REPORTED BY MISSION AND
EMBASSY. KISSINGER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: TOURISM, EXPORTS, BALANCE OF PAYMENTS, COMMITTEE MEETINGS, IMPORT CONTROLS
Control Number: n/a
Copy: SINGLE
Draft Date: 13 OCT 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: willialc
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973STATE203517
Document Source: CORE
Document Unique ID: 00
Drafter: JSMITH:SMM
Enclosure: n/a
Executive Order: GS MC NAMARA
Errors: N/A
Film Number: n/a
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19731034/aaaaaysc.tel
Line Count: 174
Locator: TEXT ON-LINE
Office: ORIGIN STR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: : MADRID 5737; MADRID 5744; GENEVA 5, 181 (NOTAL)
Review Action: RELEASED, APPROVED
Review Authority: willialc
Review Comment: n/a
Review Content Flags:
Review Date: 01 OCT 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <01-Oct-2001 by kelleyw0>; APPROVED <26-Nov-2001 by willialc>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: GATT BALANCE OF PAYMENTS COMMITTEE REPORT ON SPAIN
TAGS: ETRD, SP, GATT, IMF
To: MADRID GENEVA
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005